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MULTILATERAL INVESTMENT FUND

**MEXICO**

**ECONOMIC DEVELOPMENT AND TERRITORIAL  
COMPETITIVENESS OF MSMES IN THE LERMA RIVER BASIN**

**(ME-M1040)**

**DONORS MEMORANDUM**

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## ABBREVIATIONS

A.C. COLMICH	Colegio de Michoacán Asociación Civil
AWP	Annual work plan
COECYT	Consejo Estatal de Ciencia y Tecnología [State Science and Technology Council]
CONACYT	Consejo Nacional de Ciencia y Tecnología [National Science and Technology Council]
COPDE	Comité de Orientación de Políticas de Desarrollo Regional [Steering Committee for Regional Development Policies]
ISAO	Instituto Superior Autónomo de Occidente A.C.
MIF	Multilateral Investment Fund
MSMEs	Micro-, small, and medium-sized enterprises
PAIC	Plan de Acción e Integración de Cadena [Action Plan for the Integration of Production Chains]
PCR	Project Completion Report
PPMR	Project Performance Monitoring Report
UNIDO	United Nations Industrial Development Organization
UNIVA	Valle de Atemajac University

# ECONOMIC DEVELOPMENT AND TERRITORIAL COMPETITIVENESS OF MSMEs IN THE LERMA RIVER BASIN (ME-M1040)

## I. EXECUTIVE SUMMARY

<b>Beneficiary country:</b>	Mexico
<b>Executing agency:</b>	Instituto Superior Autónomo de Occidente A.C. (ISAO)/UNIVA
<b>Beneficiaries:</b>	1,200 families and micro-, small, and medium-sized enterprises (MSMEs) in the meat, vegetable, and regional-product sectors located in the Lerma River basin, which includes the municipios of Degollado, La Piedad, and Pénjamo, in the states of Jalisco, Michoacán, and Guanajuato, respectively.
<b>Objectives:</b>	The <i>general objective</i> of the project is to promote sustainable economic development in the western basin of the Lerma River by boosting the competitiveness of stakeholders in the production sector and by strengthening business support agencies. Its <i>purpose</i> is to develop a territorial coordination model for MSMEs in the meat, vegetable, and craft sectors, to include public-private partnerships, business cluster innovation, and efforts to strengthen the local institutional capacity of business support agencies.
<b>Financing:</b>	MIF (nonreimbursable): US\$1,358,310 (48%) Counterpart: US\$1,471,690 (52%) <b>Total:</b> <b>US\$2,830,000 (100%)</b>
<b>Execution timetable:</b>	Execution period: 42 months Disbursement period: 48 months
<b>Special contractual clauses:</b>	<b>Conditions precedent to the first disbursement of MIF resources</b> (i) Selection of the project coordinator; and (ii) creation of the Steering Committee for Regional Development Policies (COPDE).
<b>Exceptions to Bank policy:</b>	None

**Coordination  
with other  
official  
development  
finance  
institutions:**

No other agencies are working in this sector.

**Environmental  
and social  
review:**

At its meeting of 7 September 2007, the Committee on Environment and Social Impact (CESI) classified this project as a Category C operation, and did not require further evaluations or actions.

## **II. BACKGROUND AND PROBLEM TO BE ADDRESSED**

- 2.1 The region comprising the Lerma River basin, which includes the municipios of Degollado, La Piedad, and Pénjamo, is located in the Mexican states of Jalisco, Michoacán, and Guanajuato. The three municipios combined have a population of approximately 250,000 people, and the local economy is based on the traditional primary sector of agriculture. The case of these three municipios clearly illustrates how small Mexican communities have been economically impacted by their inability to prepare early on for world trade liberalization. The main consequences of this situation has been an aggravation of migratory problems due to the lack of jobs, the lack of competitiveness of small businesses and production sectors in local and international markets, and the absence of triggers that can reactivate job-creating business projects.
- 2.2 Production diversification and the changes of recent decades have spurred growth in industrial activity, although to different degrees in the three municipios because of different policies implemented in the three states in an environment previously characterized by firmly embedded traditional craft activities (textiles, cantera stonework, food processing). In the tertiary sector, La Piedad has also developed as a service, educational, and administrative center; Pénjamo has developed into a commercial center; and in Degollado, agriculture and crafts have prevailed. Although the three municipios belong to three different states, they are strongly integrated and interlinked due to their peculiar geographical, cultural, and economic characteristics (Pénjamo is part of La Piedad's urban area).
- A. The Lerma River basin: economic and production potential**
- 2.3 The municipio of La Piedad is located in northern Michoacán. Its climate is preponderantly semi-warm and subhumid, with summer rains, which has favored the specialized cultivation of greenhouse vegetables (tomatoes, cucumbers, peppers), and the development of value chains that include micro and small service providers.



- 2.4 Historically, in addition to agroindustry, the region's economic activity has been livestock farming (hogs, cows); it now includes industry (food products, sporting goods) and commerce (clothing, furniture, footwear, food products, building materials, handcrafts, others). Jalisco, Michoacán, and Guanajuato produce some 70% of the country's pork output, although they are losing competitiveness because of a lack of progress in diversifying and accessing higher-value markets.
- 2.5 Some 60 textile enterprises in the region make clothing, shawls (rebozos), and sports footwear. In fact, there is a clothing corridor in the region known as the La Piedad Triangle, which includes lead enterprises that have penetrated regional and international markets with their own brands, and have recently begun to diversify with the aim of tapping nostalgic markets of Mexican residents in the United States (wedding dresses and accessories). This notwithstanding, there are weaknesses in terms of technological development and market access, and competition in the textile sector from countries such as China is being faced with uncertainty. Degollado has seen an increase in the marketing of crafts, especially carved Cantera stone, but these activities are triggered by specific orders with no strategy of innovation and expansion, or a search for more dynamic and diverse distribution and marketing channels. Vegetable production has expanded in Perijico (asparagus, broccoli, alfalfa), replacing conventional products, but without a sector

strategy that commercially exploits opportunities for vertical and horizontal linkages among enterprises.

- 2.6 **Obstacles to competitiveness.** Production trends in the region have led to a loss of commitment to cooperative arrangements and a lack of specialized technical and business training options. In previous years, the production base was characterized by a certain level of readiness to form associations, but this inclination was either lost or has not adapted to new market requirements and new marketing arrangements. For example, the only activity that vegetable producers and clothing manufacturers engage in together is the purchase of inputs. Moreover, training organizations in the region have not managed to establish permanent ties with the MSME sector and the private sector, nor have they been able to design technical training services that meet the needs of the enterprises. The Instituto Superior Autónomo de Occidente A.C./Valle de Atemajac University (ISAO/UNIVA), an important academic center in the region, has a business incubator program that has not been replicated, nor has it undertaken other types of activities such as conducting tracer studies, creating job banks and trainers' centers, or holding competitions for semi-industrial projects. The leading textile manufacturers, which employ the largest percentage of the labor force, lack design and training centers. Lastly, generational change, especially in the textile, stonework, and agroindustrial sectors, requires young people to have better technical skills and knowledge since, potentially, they will be expected to lead these enterprises in the future.
- 2.7 There are positive experiences at the federal and state levels of support for MSMEs, including initiatives to upgrade and develop technical expertise, supplier fairs, and territorial product image development. However, at the municipal level, there has been no support for meeting the specific needs of expanding sectors with a potential for growth or sectors that are undergoing change. No concerted initiatives have been undertaken to tap the assets and resources of the private sector, academia, and the public sector for addressing these problems based on a territorial and value chain approach.

## **B. Rationale and additionality**

- 2.8 The region comprising the Lerma River basin has some important factors that could upgrade its competitiveness and that of its enterprises: (i) track record and installed capacity of a labor force with a relatively well-educated young population that can assume a leadership role in sector enterprises; (ii) local educational and training institutions (both formal and informal) that can include entrepreneurship and innovation on their training agendas; (iii) local governments that are aware of the need to boost business competitiveness, especially among MSMEs, and that have started working with the private sector;<sup>1</sup> and (iv) concrete collective experience with connecting with foreign markets that are open to new products and services.

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<sup>1</sup> The design of this project is an outcome of a private-public initiative involving several different sectors, including the education, business, and municipal sectors.



- 2.9 The rationale for this MIF project is that it will have a catalytic effect by combining the aforementioned factors under a territorial development approach. The project will implement a series of activities through “action plans for the integration of production chains” (PAICs), in which both public and private stakeholders will play a key role in implementing the components. The project will be part of the MIF cluster on Promoting Local Competitiveness.

### III. PROJECT OBJECTIVE AND DESCRIPTION

#### A. Objectives

- 3.1 The *general objective* is to promote sustainable economic development in the western basin of the Lerma River by boosting the competitiveness of producers and by strengthening business support agencies. Its *purpose* is to develop a territorial coordination model for MSMEs in the meat, vegetable, and craft sectors, to include public-private partnerships, business cluster innovation, and efforts to strengthen the local institutional capacity of business support agencies.

#### B. Description

- 3.2 To meet its objectives, the project will implement three components: (i) development and establishment of Action Plans for the Integration of Production Chains (PAICs); (ii) execution of actions for business cluster innovation, in line with the approved PAICs; and (iii) development and establishment of an institutional foundation for territorial competitiveness. The project will be monitored and its outcomes disseminated as part of a fourth component.
- 3.3 **Component I: Development and establishment of Actions Plans for the Integration of Production Chains (PAICs) (MIF: US\$548,300; ISAO/UNIVA: US\$285,200).** The main purpose of this component is to help strengthen the competitiveness of enterprises by designing a strategy for each sector chain, and by offering integrated training activities and advisory services to MSMEs in the selected sectors. The following activities will be carried out: (i) creation of a core group of local experts, under the supervision of a sector coordinator; (ii) enterprise and sector diagnostic assessments; (iii) awareness-building and training for entrepreneurs and technical staff in sector enterprises; (iv) design of a PAIC for each sector; and (v) coordinated training activities and advisory services to strengthen the enterprises.
- 3.4 MIF resources will be used to hire consultants, cover the logistics of training events and technical assistance, and procure materials and basic equipment for the executing unit. The municipal governments will play an important role in coordinating and monitoring activities since they have good relationships with the MSMEs in the project area. The economic development offices of the municipal governments will participate in different project activities, including: (i) helping to identify project participants; (ii) providing technical information on the selected

- sectors; and (iii) providing infrastructure and logistics for these activities and for project promotion.
- 3.5 The following are the expected outcomes for this component: (i) a database of qualified national consultants (at least 10 identified and registered) created; (ii) three sector and 300 enterprise assessments (total) conducted; (iii) three Action Plans for the Integration of Production Chains (PAIC) (one each for the meat, vegetable, and crafts/regional products sectors) formulated, approved, and being implemented; and (iv) at least 200 enterprises receiving advisory services, individually and on specific topics.
- 3.6 **Component II: Execution of actions for business cluster innovation provided for in the approved PAICs (MIF: US\$360,000; ISAO/UNIVA: US\$360,000).** The objective of this component is to design and execute joint business activities, within the framework of each PAIC. These activities will aim to improve competitiveness, and will tackle problems that exceed the enterprises' individual capacities, and that require a collective group effort and a cluster approach to be effectively addressed. These activities include: (i) execution of market penetration strategies and strengthening of sales and distribution capacities; (ii) development of new products or processes that add value to traditional products; and (iii) improvement of the organization of management, production, and technology, ensuring that problems associated with sustainability and environmental impact are taken into account.
- 3.7 These actions will be identified and carried out through joint projects. The type and nature of the projects will be defined in each PAIC, and will be selected and approved at the project level using transparent competitive methods; the projects will target three main lines of action. Under each line of action, joint projects among enterprises and projects bringing together enterprises and other stakeholders will be selected using competitive methods, under the defined conceptual framework of action that focuses on issues of strategic importance to enterprises in the cluster. At least three group projects will be designed, selected, and executed for each line of action, in line with the strategy of the respective PAIC. The basic criteria for selecting projects are set out in the Operating Regulations and include: (i) the number of enterprises participating in the group; (ii) the counterpart contribution to project implementation; (iii) the progress made in achieving project objectives at the time of presentation; and (iv) the strategic importance of the initiative, in terms of its scope and objective within the given sector.
- 3.8 The projects of this component may be executed and financed under a "matching grant" arrangement. The mechanism governing the contributions of beneficiary enterprises to the budget of each initiative will be adjusted, taking into account the maturity of each sector and the project's stage of progress.
- 3.9 One expected outcome of this component is that at least 130 enterprises will have participated directly in a group project (at least 9 projects following the PAIC strategy). Three projects are expected for each sector (meat, vegetables, crafts) in

each municipio, to address three specific topics, to wit: (i) access to new markets; (ii) development of new products or distribution channels; and (iii) development of business clusters.

- 3.10 **Component III: Institutional foundation for territorial competitiveness (MIF: US\$95,950; ISAO/UNIVA: US\$492,000).** This component aims to promote efficient and effective relationships between enterprises and public institutions in order to achieve the system efficiency required for development and competitiveness; this will include executing strategic public-private initiatives with a regional impact. The activities to be carried out under this component are: (i) establishment of strategic committees for private-public coordination in each sector of interest, to play an advisory role; (ii) design and execution of systemic projects requiring public-private coordination; and (iii) design of strategies for innovation with a high technological content for strengthening the value chains.
- 3.11 Expected outcomes of this component include: (i) establishment and operation of a steering committee for business development policy, and establishment of three sector strategy committees; (ii) a seminar on territorial development for the committees and project team; (iii) three study missions to development projects; (iv) at least three feasibility studies for systemic projects; (v) three systemic projects operating with the direct participation of public and private entities; and (vi) three studies to spur innovation in value chains.
- 3.12 **Component IV: Monitoring, evaluation, and dissemination of outcomes (MIF: US\$28,800; ISAO/UNIVA: US\$64,500).** The purpose of this component is to ensure that the project will be monitored and its outcomes disseminated in order to increase awareness of efforts to promote regional economic development through dynamic business ventures and clusters of MSMEs. Taking into account project outcomes and lessons learned, a model will be designed under this component and conditions created for replicating and adapting the experience in other sectors or other territories. This component serves a cross-cutting function and is of key importance for ensuring proper project implementation. To achieve these objectives, the following activities will be carried out: (i) preparation and dissemination of promotional materials; (ii) study of the project experience, and systematization of a model and a transferable methodology based on that experience; and (iii) dissemination of outcomes.
- 3.13 The expected outcomes of this component include: (i) design and approval of a communications and information plan; (ii) preparation of promotional materials on the project (informational pamphlets), dissemination of project information in local media and in the media of the three states; (iii) design, testing, operation, and updating of the project website, to include information on the project and the monitoring and follow-up systems; (iv) study of the methodology adopted and design of a model for integrated local economic development; (v) three events to disseminate project information, held in participating states; (vi) one event involving international coverage to disseminate project outcomes; and (vii) participation in four international events to disseminate project outcomes.

#### IV. COST AND FINANCING

- 4.1 The total cost of the project is **US\$2,830,000**, of which 47% (**US\$1,358,310**) will be contributed by the MIF on a nonreimbursable basis. The counterpart contribution is **US\$1,471,690**, of which at least 50% will be in cash.
- 4.2 **Project sustainability:** Key stakeholders representative of the region and involved in promoting it participated in preparing this proposal. They included the municipal governments, ISAO/UNIVA, and the Lerma Basin Foundation, and all have agreed on the need to build permanent local capacities, pledging to contribute resources to the project. Although the initial startup costs for this initiative are considerable, the outcomes are expected to lead to the mobilization and leveraging of additional resources after the project comes to an end. Moreover, interviews with small-, medium-, and large-scale entrepreneurs in the region showed there was an interest in creating a permanent business service unit in the area. ISAO/UNIVA, a prestigious university with a good reputation in the region, is emerging as the entity that will house this service platform once the project has ended. The project's governing structure will be expected to design a sustainability strategy for project services in the second year of execution.
- 4.3 At least one year before the project execution period comes to an end, a sustainability workshop will be held with representatives of the MIF, the executing agency, and others to be agreed upon. Its purpose will be to evaluate the progress attained and to identify the measures and actions needed to ensure continuity of actions once project funding comes to an end. The scope of the sustainability workshop is to be agreed upon with sufficient notice.

**Project costs (in U.S. dollars)**

Category	MIF	Local contribution		Total
		Cash	In-kind	
C.I. Development and establishment of PAICs	548,300	187,700	97,500	833,500
C.II. Business cluster innovation actions	360,000	360,000	0	720,000
C.III. Institutional foundation for territorial competitiveness	95,000	492,000	0	587,000
C.IV. Monitoring and dissemination of outcomes	28,800	18,000	46,500	93,300
Executing unit	204,500	182,400	66,000	452,900
Evaluation and monitoring	90,000		0	90,000
Contingencies	23,968	21,590	0	45,558
<b>Subtotal</b>	<b>1,351,518</b>	<b>1,261,690</b>	<b>210,000</b>	<b>2,823,208</b>
Impact assessment account (0.5%)	6,792	0	0	6,792
<b>TOTAL</b>	<b>1,358,310</b>	<b>1,261,690</b>	<b>210,000</b>	<b>2,830,000</b>

## **V. EXECUTING AGENCY AND EXECUTION MECHANISM**

- 5.1 The project's executing agency will be the Instituto Autónomo de Occidente A.C., under the commercial name UNIVA (Universidad del Valle de Atemajac). The institute has been in operation since 1972 and was established as a civil association on 2 October 1973. On 14 March 1977, as the Instituto Superior del Valle de Atemajac, it received official recognition from the Department of Education. It was accredited as the Universidad del Valle de Atemajac (UNIVA) on 28 March 1979, when it was granted the status of university by the Department of Education. Not only was its status fully recognized, it was expressly authorized to change its name from Instituto Superior del Valle de Atemajac to Universidad del Valle de Atemajac.
- 5.2 It has operated as an institute of learning since 1962, when it was established in Guadalajara, under the name of Instituto Pío XII. It was created by the now Monsignor Dr. Santiago Méndez Bravo, founding Chancellor. Today, ISAO/UNIVA has 10 campuses in various Mexican cities. Its mission is to prepare people to be responsibly linked to the life and aspirations of the community, who contribute to the sustainable and comprehensive development of the nation through high-quality professional performance, in line with contemporary scientific and technological progress. ISAO/UNIVA has ties with, belongs to, and is recognized by national and international organizations that endorse its quality. These include the Inter-American Organization for Higher Education (IOHE) and the International Association of Universities.
- 5.3 The La Piedad campus of ISAO/UNIVA was established in 1985 as the university's first satellite campus. It is sponsored by the Foundation for Education of the Lerma Basin Civil Association, an institution legally established in 1986 and has a proven track record of more than 20 years. The latter's social purpose is to foster, support, and promote higher education and sustainable development in the region and in the country. Its members are entrepreneurs recognized for their solid economic standing, leadership, and drawing power, who share a vision of economic development for the region.
- 5.4 ISAO/UNIVA will administer the resources, identify beneficiaries, and provide transparency for the project; it will disseminate project outcomes and support efforts to strengthen other institutions. The project's execution structure will be set up at ISAO/UNIVA as a new and additional operating unit, with a position in the organizational chart that assures it a high degree of strategic and operational independence. The project structure comprises: (i) a board of directors, which will provide the project's strategic leadership and will be chaired by the Director of the ISAO/UNIVA La Piedad campus; it has the right to be heard and to vote on certain project decisions of a general strategic scope; (ii) a project executing unit, which will be the technical body responsible for executing project activities under the leadership of the project coordinator; and (iii) the Steering Committee for Regional Development Policies (COPDE), which has the right to be heard but may not vote

on the administrative and operational decisions of the IDB/MIF project. COPDE is an advisory body responsible for providing the project's strategic vision, ensuring a balance among regional stakeholders. This committee will be made up of one representative from each municipal government, one representative from each sector business chamber, one representative from the Lerma Basin Foundation (a sponsor of the university that represents large-scale entrepreneurs in the region), and one representative of the federal government from each participating state, representing the various programs that provide support to the MSME sector in the region.

- 5.5 **Execution period.** The project execution period is expected to be 42 months, with a disbursement period of 48 months. Activities will be programmed in accordance with an Annual Work Plan (AWP), taking into account the specifications of the Operating Regulations. The executing unit will implement actions and use the budget funds previously approved in the AWP.
- 5.6 **Procurement.** The goods, services, and consulting services envisaged in the project will be procured by the executing agency in accordance with Bank policies (documents GN-2349-7 and GN-2350-7) and the procurement plan. The procurement plan can be found in the project files.

## VI. MONITORING AND EVALUATION

- 6.1 The Bank's Country Office in Mexico will be responsible for project supervision, control and monitoring, and for overseeing compliance with contractual clauses, processing disbursement requests, and receiving the audited financial statements.
- 6.2 ISAO/UNIVA will design and implement an information system for monitoring the performance indicators of the PAICs; it will also collect and process the monitoring data, including the baseline information, for each PAIC. This will ensure that it has the information on the three sectors needed to make any necessary adjustments during execution, to feed the process of systematizing and disseminating outcomes, and to replicate the project in other areas.
- 6.3 **Monitoring reports.** ISAO/UNIVA will submit the project's semiannual progress reports to the Bank's Country Office in Mexico in January and in July, and a final report within 30 days of the last disbursement. The reports will follow the format previously agreed upon with the Bank, and will include a work plan and disbursement timetable for the subsequent six-month period. It will cover all project activities and funds executed to date, as well as the outcomes, measured with the indicators and means of verification in the project's logical framework (Annex I) and the table of performance indicators (in the technical files). In addition, ISAO/UNIVA will submit annual work plans (AWPs) one month prior to the beginning of each year.
- 6.4 **Evaluations:** The Bank will use project resources to commission two external consulting assignments to conduct the midterm and final evaluations. The midterm

evaluation will be conducted 18 months after the first MIF disbursement. This evaluation will cover the following aspects at a minimum: (i) progress towards the logical framework indicators; (ii) progress in project execution; (iii) ISAO/UNIVA's performance in the execution process; and (iv) the counterpart's compliance with budget obligations and the Operating Regulations. In addition, the midterm evaluation is expected to propose any necessary modifications in the logical framework, the components, and/or the budget. The final evaluation will be conducted when 95% of MIF resources has been disbursed, and will assess: (i) the degree to which the project's purpose and specific objectives have been fulfilled; and (ii) the level of sustainability of project-supported actions once MIF funding has concluded.

- 6.5 **Closing workshop:** Three months before the end of the project implementation period, a closing workshop will be organized, to be attended by the executing agency, MIF staff, sector representatives, and any other persons to be agreed upon. The purpose of the workshop will be to jointly evaluate outcomes, identify additional tasks needed to guarantee the sustainability of project-initiated actions, and identify lessons learned.

## VII. PROJECT BENEFITS AND RISKS

- 7.1 **Benefits.** The project will strengthen the competitiveness of three sectors in the western basin of the Lerma River by strengthening the readiness to form associations and promoting the development of clusters. Sector enterprises will be strengthened through actions to penetrate markets, develop new products, and improve the organization of management and production. The project will also facilitate the development of local private and public-private networks, the creation of regional mechanisms for cooperation and consensus-building, and the implementation of projects to boost territorial competitiveness that will strengthen the institutional support framework and promote new sources of income and employment in the area, thus contributing to the improvement of living conditions in the territory.
- 7.2 **Beneficiaries.** The direct beneficiaries of the project's activities and resources are: (i) 1,200 MSMEs in the meat, vegetable, craft/regional products sectors in the western lowlands of the Lerma River basin; (ii) 1,500 employees in 130 MSMEs that engage in group actions to develop new markets, incorporate technology, and strengthen business organization through specialized technical assistance and training; (iii) 50 officials and representatives from the municipal governments in the western region of the Lerma River basin, and from government offices (economic development departments) of the states of Guanajuato, Jalisco, and Michoacán, who will receive training in local and regional development; (iv) 30 representatives of business associations, trade associations, and local nongovernmental organizations working in the economic and social development sectors; (v) officials, representatives of the academic sector, and researchers from local and regional institutions who receive training and gain direct experience with integrated

local development projects (including ISAO/UNIVA, La Piedad Technological Institute, Universidad de León, Colegio de Michoacán, A.C. COLMICH, CONACYT, COECYT); and (vi) enterprises in the western lowlands of the Lerma River basin that benefit from the new tools introduced and the new model for promoting territorial economic development, through an improved capacity to work in synergy with different public and private stakeholders toward a common goal.

- 7.3 **Risks.** Two main risk factors inherent in efforts to develop clusters have been identified: (i) enterprises belonging to traditional sectors may maintain an individualistic attitude. To mitigate this risk, lead enterprises will be identified and the first actions will be based on their capacities to build a process of growth fueled by the businesses' own positive leadership; (ii) municipal governments may not make the contributions they agreed to or engage in the agreed consensus-building actions due to changes in government. This risk will be mitigated through proper programming of activities, as well as by the fact that the project was designed to ensure that activities requiring public participation are distributed among the three participating municipios.

## VIII. SOCIAL AND ENVIRONMENTAL IMPACT

- 8.1 Project execution will not have a negative environmental impact. It will not have a negative environmental or social impact because: (i) most of its activities involve human and institutional training; and (ii) it will benefit small and medium-sized industry in the region, with training in environmental and industrial safety. According to the classification process, this project was classified as a category "C" operation.



**ECONOMIC DEVELOPMENT AND TERRITORIAL COMPETITIVENESS OF MSMEs IN THE LERMA RIVER BASIN  
(ME-M1040)**

**LOGICAL FRAMEWORK**

<b>Narrative summary</b>	<b>Indicators</b>	<b>Means of verification</b>	<b>Assumptions</b>
<b>Goal</b>			
To promote sustainable economic development in the western basin of the Lerma River by increasing the competitiveness of stakeholders in the production sector and strengthening business support agencies.	<p>By project end:</p> <ul style="list-style-type: none"> <li>Exports from the western lowlands of the Lerma River basin have increased by at least 20%, with an annual growth rate higher than the average for the five years preceding the project.</li> </ul>	<ul style="list-style-type: none"> <li>UNIVA annual reports</li> <li>Socioeconomic statistics of INEGI and SIMBAD.</li> </ul>	<ul style="list-style-type: none"> <li>The macroeconomic climate remains stable.</li> <li>No natural, political, or commercial phenomena occur that significantly affect the region's exports.</li> </ul>
<b>Purpose</b>			
To develop a model of territorial coordination for MSMEs in the meat, vegetable, and craft sectors, to include public-private partnerships, business cluster innovation, and efforts to strengthen the local institutional capacity of business support agencies.	<p>By project end, each sector shows changes in the following indicators, with respect to the baseline:</p> <ul style="list-style-type: none"> <li>Expansion of sales to a new market</li> <li>Average sales of enterprises participating in the project increase by 30%</li> <li>Problems associated with quality (waste, unsatisfactory materials, product returns) fall by 30% in participating enterprises</li> <li>At least 60% of participating enterprises state that the project has helped improve their technical and alliance-building skills, enabling them to achieve higher levels of competitiveness.</li> <li>A public-private partnership (in the form of strategic coordinating committees) has been forged to promote sector competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Baseline benchmark data</li> <li>PAIC execution reports</li> <li>Final survey of beneficiaries</li> <li>Project Performance Monitoring Reports (PPMR); final execution reports; final evaluation; Project Completion Report (PCR).</li> </ul>	<ul style="list-style-type: none"> <li>External demand for the products of the MSMEs remains stable or grows.</li> <li>The public-private partnership attains sustainability and continues to implement initiatives that have a positive impact on the competitiveness of the targeted sectors.</li> </ul>

Narrative summary	Indicators	Means of verification	Assumptions
<b>Components</b>			
<p><b>1. Development and establishment of action plans for the integration of production chains (PAICs).</b></p> <p>To boost competitiveness, design a strategy for each production chain, including comprehensive training activities and advisory services for the MSMEs in the selected sectors</p>	<p>15 months after the project is launched:</p> <ul style="list-style-type: none"> <li>A first draft of a PAIC formulated for each sector (3 in total)</li> <li>At least 120 enterprises assessed</li> </ul> <p>36 months after the project has been launched, for the three sectors:</p> <ul style="list-style-type: none"> <li>At least 300 enterprises assessed</li> <li>At least 200 enterprises formally incorporated into the project and receiving training for implementing joint projects</li> <li>3 PAICs formulated and being implemented</li> </ul>	<ul style="list-style-type: none"> <li>Approved PAICs</li> <li>Enterprise assessment reports</li> <li>Enterprise training reports</li> <li>PPMR; semiannual execution reports; midterm and final evaluations; PCR.</li> </ul>	<ul style="list-style-type: none"> <li>Support institutions are interested in designing the PAICs.</li> <li>The baseline assessments for the PAICs demonstrate the feasibility of creating business groups.</li> <li>Sector trade associations, large enterprises, and state and municipal governments support the project.</li> </ul>
<p><b>2. Actions for business cluster innovation</b></p> <p>Design and execute joint activities in line with each PAIC, with a view to boosting the capacities of individual enterprises through the synergies created.</p>	<p>24 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 9 joint projects identified and selected within the 3 PAICs (meat, vegetables, crafts).</li> <li>At least 130 MSMEs (40 in the meat sector, 30 in the vegetable sector, 60 in the craft sector) participating in clusters to implement the actions of the 9 projects identified</li> </ul> <p>42 months after the project has been launched:</p> <ul style="list-style-type: none"> <li>At least 9 joint projects executed.</li> </ul>	<ul style="list-style-type: none"> <li>Action plans of the PAICs.</li> <li>Case studies by UNIVA</li> <li>PPMR; semiannual execution reports; midterm and final evaluations; PCR.</li> </ul>	<p>The business and institutional environment continues to be favorable for joint business actions</p>
<p><b>3. Institutional foundation for territorial competitiveness</b></p> <p>Promote and coordinate efficient and effective ties between enterprises and the public institutions involved in formalizing their activities, for the purpose of planning joint territorial development strategies.</p>	<p>12 months after the project is launched:</p> <ul style="list-style-type: none"> <li>1 steering committee for business development policies and 3 sector strategy committees operating with participation of public and private stakeholders</li> </ul> <p>42 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 3 public-private initiatives (systemic projects) implemented in support of the production sector.</li> </ul>	<ul style="list-style-type: none"> <li>Case studies by UNIVA</li> <li>Public-private project execution reports</li> <li>PPMR; semiannual execution reports; midterm and final evaluations; PCR.</li> </ul>	<p>The favorable context enables the institutions to participate actively in actions to strengthen the institutional foundation and interagency relations.</p>

Narrative summary	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>New sustainable forms of interagency cooperation, focusing on competitiveness and territorial development, established and tested</li> </ul>		
<b>4. Monitoring and dissemination of outcomes</b>  Ensure project monitoring and dissemination of outcomes with a view to contributing to effective project implementation	6 months after the project is launched: <ul style="list-style-type: none"> <li>Monitoring and follow-up system established</li> </ul> 42 months after the project is launched: <ul style="list-style-type: none"> <li>Methodology and work models adopted and systematized</li> <li>Actions to disseminate the methodology and experience taken in at least 3 Mexican states</li> </ul>	<ul style="list-style-type: none"> <li>Case studies by UNIVA</li> <li>Report on systematization of the adopted methodology and model</li> <li>PPMR; semiannual execution reports; midterm and final evaluations; PCR.</li> </ul>	The enterprises participate in the audits and provide the expected information.
<b>Activities</b>			
<b>Component I. Development and establishment of action plans for the integration of production chains</b>			
1.1 Establish a core group of local experts under the supervision of a sector coordinator	6 months after the project is launched: Project team contracted and trained, comprising: <ul style="list-style-type: none"> <li>1 project coordinator</li> <li>3 sector coordinators</li> <li>A database of at least 10 national consultants</li> <li>Seminar on local and territorial development</li> <li>Preidentification of participating enterprises, by sector</li> </ul> At the beginning of the project, define the baseline.	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Outcome of consultant selection process</li> <li>Contracts signed with sector consultants</li> </ul>	Qualified local and national consultants are available to participate in the project.  Beneficiary enterprises participate in the training and adopt the techniques learned.
1.2 Conduct diagnostic assessments of enterprises and sectors	6 months after the project is launched: <ul style="list-style-type: none"> <li>Actions taken to inform and raise awareness in each sector, with at least 200 enterprises</li> <li>3 sector assessments</li> </ul> 12 months after the project is launched: <ul style="list-style-type: none"> <li>Actions taken to inform and raise awareness in each sector, with at least 300 additional enterprises (total of 500 enterprises with raised awareness)</li> <li>120 assessments of enterprises</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Enterprise assessments performed</li> </ul>	Beneficiaries participate in the actions that have been planned.

Narrative summary	Indicators	Means of verification	Assumptions
	24 months after the project is launched: <ul style="list-style-type: none"> <li>A total of 300 enterprises assessed</li> </ul>		
1.3 Conduct actions to raise awareness and train entrepreneurs and technical personnel from sector enterprises <ul style="list-style-type: none"> <li>30 awareness-building workshops to create groups of enterprises</li> <li>300 modules of basic technical-business advisory services (individual)</li> </ul>	24 months after the project is launched: <ul style="list-style-type: none"> <li>300 enterprises will have received individualized basic advisory services on technical and business topics</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Awareness building and training workshops conducted</li> <li>List of participants</li> </ul>	Beneficiary enterprises participate in the awareness-building activities and receive basic technical assistance.
1.4 Design an action plan for the integration of a production chain (PAIC) for each sector	24 months after the project is launched: <ul style="list-style-type: none"> <li>3 sector PAICs formulated</li> </ul>	PAIC formulated for each sector	Support institutions are available and actively support the design of the PAICs.
1.5 Coordinate training activities, as well as consulting and advisory services, in order to strengthen the enterprises and equip them to undertake the joint activities implemented under Component II.	30 months after the project is launched: <ul style="list-style-type: none"> <li>At least 200 enterprises will have received advice on specific subjects</li> <li>200 modules of individual advisory services will have been provided to enterprises that demonstrated a general interest in engaging in joint activities: the competitiveness of the enterprises brought up to par in view of joint activities</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Reports by experts</li> <li>PAIC execution reports</li> </ul>	Economic conditions remain favorable for enterprises to participate in alliance-building activities.
<b>Component II: Actions for business cluster innovation</b>			
2.1 Execute market penetration strategies, and strengthen sales and distribution capacity  2.2 Using competitive methods, select joint projects that target issues of strategic importance and bring together different enterprises and enterprises and other stakeholders, in line with each PAIC.	42 months after the project is launched: <ul style="list-style-type: none"> <li>At least 3 group projects been designed, selected, and executed in keeping with the PAIC strategy</li> <li>Meat sector: the group will have gained access to 3 extraregional markets</li> <li>Vegetable sector: the group will have gained access to 3 extraregional markets</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Detailed designed projects</li> <li>Progress reports on project implementation</li> <li>Monitoring system reports</li> </ul>	International market conditions remain favorable for Mexican product penetration.

Narrative summary	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>Craft sector: the group will have gained access to at least 1 new market</li> </ul> <p>42 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 130 enterprises participate directly in group projects</li> </ul>		
<p>2.2 Develop new products or processes that add value to traditional production</p> <p>2.3 Using competitive methods, select joint projects that target issues of strategic importance and bring together different enterprises and enterprises and other stakeholders, in line with each PAIC.</p>	<p>42 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 3 group projects designed, selected, and executed in line with the PAIC strategy</li> <li>Meat sector: at least 2 new products or value-added processes in the sector</li> <li>Vegetable sector: at least 5 new products or value-added processes in the sector</li> <li>Craft sector: at least 6 new products or value-added processes in the sector</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Detailed designed projects</li> <li>Progress reports on project implementation</li> <li>Monitoring system reports</li> </ul>	<ul style="list-style-type: none"> <li>Supporting institutions (universities, research and development institutions, governmental agencies, etc.) continue to be available to participate in business cluster projects.</li> <li>Enterprises participate actively in the cluster projects, and contribute to funding them.</li> </ul>
<p>2.5 Upgrade the organization of management, production, and technology, considering problems related to sustainability and the environmental impact of production.</p> <p>2.6 Using competitive methods, select joint projects that target issues of strategic importance and bring together different enterprises and enterprises and other stakeholders, in line with each PAIC.</p>	<p>42 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 3 group projects designed, selected, and executed in line with the PAIC strategy</li> <li>Meat sector: at least 2-3 actions to improve organization at the group level</li> <li>Vegetable sector: least 2-3 actions to improve organization at the group level</li> <li>Craft sector: least 2-3 actions to improve organization at the group level, and to improve occupational and environmental safety</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Detailed designed projects</li> <li>Progress reports on project implementation</li> <li>Monitoring system reports</li> </ul>	Beneficiary enterprises are willing to undertake joint activities to upgrade management, production, and technological organization.
<b>Component III: Institutional foundation for territorial competitiveness</b>			
3.1 Establish strategic committees for public-private coordination in each sector, to play an advisory role	<p>6 months after the project is launched:</p> <ul style="list-style-type: none"> <li>1 steering committee on regional development policies set up</li> <li>3 strategic sector committees set up</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>List of institutions and enterprises participating on the panels</li> <li>Report of the meetings of the panels</li> </ul>	The different institutions (local, state, and national levels) and private stakeholders are available to participate actively on the strategic committees.

Narrative summary	Indicators	Means of verification	Assumptions
<ul style="list-style-type: none"> <li>Hold seminars for coordination of public and private stakeholders</li> </ul>	<p>12 months after the project is launched:</p> <ul style="list-style-type: none"> <li>1 territorial development seminar held for the committees and the project team</li> </ul> <p>24 months after the project is launched:</p> <ul style="list-style-type: none"> <li>3 study missions made to development projects</li> </ul>	<ul style="list-style-type: none"> <li>List of participants attending training courses</li> <li>Work plans and agendas of the missions</li> </ul>	
<p>3.2 Design and implement “systemic” projects involving coordination of public and private entities</p>	<p>24 months after the project is launched:</p> <ul style="list-style-type: none"> <li>At least 3 feasibility studies for systemic projects designed and under way</li> <li>3 systemic projects operating, with public and private stakeholder entities</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Detailed designed projects</li> <li>Progress reports on project implementation</li> <li>Monitoring system reports</li> </ul>	<ul style="list-style-type: none"> <li>Local and state stakeholders continue to be willing to participate in systemic projects.</li> <li>Trained qualified experts are available to coordinate public-private projects.</li> </ul>
<p>3.3 Design strategies for innovation with a high technological content for strengthening the value chains</p>	<p>42 months after the project is launched:</p> <ul style="list-style-type: none"> <li>3 studies conducted for fostering innovation in production chains</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Strategy document for supporting enterprises in innovating sectors</li> </ul>	<ul style="list-style-type: none"> <li>The institutions that provide knowledge for innovation and technology development continue to be interested and participate actively in the activities.</li> </ul>
<b>Component IV: Monitoring and dissemination of outcomes</b>			
<p>4.1 Prepare and disseminate promotional materials</p>	<p>12 months after the project is launched:</p> <ul style="list-style-type: none"> <li>Promotional materials prepared for the project</li> <li>Dissemination actions in local media and in the media of the three states</li> <li>An updated project website will be operating, with information on the project, and the follow-up and monitoring systems; after MIF support comes to an end it will be maintained by the project executing agency</li> </ul> <p>42 months after the project has been launched:</p> <ul style="list-style-type: none"> <li>Dissemination actions carried out in local media and the media of the three participating states</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Dissemination materials</li> <li>Report on the number of website hits</li> </ul>	<ul style="list-style-type: none"> <li>There are local experts available for dissemination and awareness-building actions.</li> <li>Individuation of experts/service office for creating and managing the project website.</li> </ul>

Narrative summary	Indicators	Means of verification	Assumptions
4.2 Study project experiences, and systematize a model and a transferable methodology based on that experience	42 months after the project is launched: <ul style="list-style-type: none"> <li>The adopted methodology and model have been systematized</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Evaluation documents</li> </ul>	<ul style="list-style-type: none"> <li>Suitable conditions have been found in other sectors or regions for disseminating / incorporating the successful experiences that have matured in the project.</li> <li>Enterprises provide information on their experiences with alliance-building efforts, and the benefits they obtained.</li> </ul>
4.3 Disseminate outcomes	42 months after the project is launched: <ul style="list-style-type: none"> <li>3 events to disseminate the project in participating states</li> <li>1 event with international coverage to disseminate outcomes</li> <li>Participation in 4 international events to disseminate outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual management reports</li> <li>Record of participants in seminars of regional, national scope</li> <li>Documentation of project information and outcomes used at events</li> </ul>	

**ECONOMIC DEVELOPMENT AND TERRITORIAL COMPETITIVENESS OF MSMEs IN THE  
LERMA RIVER BASIN  
(ME-M1040)**

**DETAILED BUDGET**

Components	Total MIF	Local contribution		Subtotal	%
		Cash	In-kind		
<b>Component I. Develop and establish action plans for the integration of production chains</b>	<b>548,300</b>	<b>187,700</b>	<b>97,500</b>	<b>833,500</b>	<b>29</b>
Activity 1.1 Create a core group of local experts under the supervision of a sector coordinator	291,600	81,000	2,200	374,800	
Activity 1.2 Conduct assessments of enterprises and sectors	3,000	14,700	90,300	108,000	
Activity 1.3 Conduct actions to raise awareness and train entrepreneurs and technical personnel from sector enterprises	138,000	0	5,000	143,000	
Activity 1.4 Design an action plan for the integration of production chains (PAICs) for each sector	23,700	0	0	23,700	
Activity 1.5 Coordinate training activities, consulting and advisory services, bring capabilities up to par	92,000	92,000	0	184,000	
<b>Component II. Actions for business cluster innovation</b>	<b>360,000</b>	<b>360,000</b>	<b>0</b>	<b>720,000</b>	<b>25</b>
Activity 2.1 Execute market penetration strategies and strengthen sales and distribution capacities	120,000	120,000	0	240,000	
Activity 2.2 Develop new products or processes that add value to traditional outputs	120,000	120,000	0	240,000	
Activity 2.3 Improve the organization of management, production, and technology, taking into account problems relating to sustainability and the environmental impact of production	120,000	120,000	0	240,000	
<b>Component III. Institutional foundation for territorial competitiveness</b>	<b>95,950</b>	<b>492,000</b>	<b>0</b>	<b>587,950</b>	<b>21</b>
Activity 3.1 Establish strategic committees for public-private coordination in each sector, to play an advisory role	17,950	0	0	17,950	
Activity 3.2 Design and implement “systemic” projects for public-private coordination	66,000	444,000	0	510,000	
Activity 3.3 Design strategies for innovation with a high technological content for strengthening value chains	12,000	48,000	0	60,000	
<b>Component IV. Monitoring and dissemination of outcomes</b>	<b>28,800</b>	<b>18,000</b>	<b>46,500</b>	<b>93,300</b>	<b>3</b>
Activity 4.1 Prepare and disseminate promotional materials	0	0	46,500	46,500	
Activity 4.2 Study project experience, systematize a model and a transferable methodology based on said experience	13,800	0	0	13,800	



Components	Total MIF	Local contribution		Subtotal	%
		Cash	In-kind		
Activity 4.3 Disseminate outcomes		18,000	0	18,000	
Activity 4.4 MIF cluster contribution	15,000	0	0	15,000	
<b>Project executing unit</b>	<b>204,500</b>	<b>182,400</b>	<b>66,000</b>	<b>452,900</b>	<b>16</b>
<b>Evaluation and monitoring</b>	<b>90,000</b>	<b>0</b>	<b>0</b>	<b>90,000</b>	<b>3</b>
<b>Contingencies</b>	<b>23,968</b>	<b>21,590</b>		<b>45,558</b>	<b>2</b>
<b>Impact evaluation account</b>	<b>6,792</b>			<b>6,792</b>	<b>0</b>
<b>TOTAL</b>	<b>1,358,310</b>	<b>1,261,690</b>	<b>210,000</b>	<b>2,830,000</b>	<b>100</b>